

15 March 64

OEC 64-0748

SUBJECT: Soviet Regime Continues to Decry US Findings on Soviet Economy

1. This memorandum comments on an article by the chief of the Soviet Central Statistical Administration, Vladimir Starovsky, which appeared in Pravda of 14 March. Mr. Starovsky has attempted to refute the statements on the Soviet economic slowdown published recently by the Joint Economic Committee of the US Congress.

2. Contrary to impression given by certain US press coverage (see Shabab article in New York Times of 15 March) the Starovsky article contains no significant information not available to US economic analysts at least two months ago--that is, well before the Joint Economic Committee issued its findings. In sum, the Starovsky article represents a re-hash of data which has appeared in official Soviet economic surveys, carefully selected to give a highly favorable impression of Soviet accomplishments. The most significant feature of the article is the degree to which this rather labored selection process--and the especially conspicuous omission of data--show to the critical eye the essential truth of the case Starovsky has attempted to refute.

3. Before considering the article itself it may be well to comment on its author. Vladimir Starovsky, now 59, has been in charge of the Soviet statistical administration since 1940 and had been a staff member of the administration for fifteen years prior to that time. Thus, the greater part of Mr. Starovsky's career was under Stalin who considered statistics to be an integral part of the propaganda war on capitalism. The obscurities, misrepresentations, and sketchiness which characterized the Soviet economic reports of Stalin's day were--at least administratively--the product of Vladimir Starovsky. Likewise, it was the same man, who, under Malenkov, issued reports on the level and state of Soviet agriculture which Khrushchev later declared to be utter falsifications designed to fool the people into thinking that the problem of providing adequate food had been solved. Since 1958, Soviet

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statistics have been considerably more elaborate although there are still many omissions in areas important to national security. However, the performance of the past few months--commencing with the release of the sketchy 1963 official economic report to the present article--serve to remind us that the present regime in Moscow is not adverse to statistical manipulation which serves the requirements of policy.

4. The Starovskiy article starts by reminding its readers of another Congressional hearing on the subject of US-USSR economic comparisons which took place in 1958. These hearings focused attention on the fact that the USSR since World War II had achieved substantial economic recovery and was then making rapid strides in many areas important to national policy. Mr. Starovskiy recalls the testimony to this effect given by Mr. Allen Dulles and contrasts the 1958 judgement (which he agrees with) to those of 1954 (which he objects to). However, here we have an interesting case of one being unable to have one's cake and eat it too. The methodology used to arrive at the conclusions in 1958 was essentially that used to build up the case for what has happened to the Soviet economy since then. What has changed has been the Soviet economy, not our analysts' ability to judge it fairly. (For further comments on this topic, see annex A).

5. Mr. Starovskiy points with pride to the Soviet claim that in 1963 USSR national income and "gross social product" were more than 60 percent of US and that gross industrial output was about 65 percent of US. He contrasts this with the Committee's report that Soviet industrial production was 48 percent of US and gross national product was 45 percent. Nowhere in this report --or elsewhere in Soviet literature, for that matter-- can one find any solid explanation of just what US base the Soviets have used to arrive at these aggregate comparisons or even whether these comparisons are based on rubles or dollars (an extremely wide range is possible depending upon which is used).

6. Suffice it to point out that neither the Soviet concepts of national income gross social product or of gross industrial product directly comparable to US gross national product and industrial output. Soviet national

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income, in large measure, does not reflect the services sector of the economy—which in the United States makes up an important and fairly rapidly growing element in national product but in the Soviet Union is relatively unimportant. The Soviet gross industrial product concept double-counts industrial output (in simple terms, it counts the value of lathes as iron ore, then as machined parts, then as assembled products) which the US concept of value-added counts only the additional value created by each successive step in the production process. This difference has become increasingly more important as the Soviet economy has become more diversified. "Gross social product" like industrial production is a double-counting concept. (for a further discussion see annex 8)

7. Because of this, nearly all Western economists who concern themselves with problems of US-USSR comparisons either deflate the Soviet indexes or, as in the case of our analysis, develop independent indexes which compare as closely as possible to the US reporting on gross national product and industrial production.

8. Dealing for a moment with the Soviet comparisons as given, one is struck with the fact that even these tend to confirm the US findings. Mr. Starovskiy's statement that national income and gross social product are "more than" 60 percent of US in 1963 reminds one that these are precisely the same words used last year and the year before to describe the same comparisons for 1962 and 1961. So much for Khrushchev's much-vaunted boasts of catching up with the US, but even more this suggests that there has been no change in relative position of the two economies—even judging from inflated Soviet statistics. Thus, by inference, this acknowledges that Soviet economic growth in 1962 and 1963 was no more and probably less than that of the US. It is noteworthy that Mr. Starovskiy gave no figure for the increase in national income—although this has been a standard item for reporting in the past.

9. Mr. Starovskiy gave a rather elaborate chart on the ruble values of Soviet gross industrial production. Contrary to the New York Times, this did not "lift a veil of secrecy" from this data, nor is it a "key indicator of industrial growth." In fact, ruble values for

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the industrial index have been reported on several occasions in the past by official Soviet sources. Mr. Starovsky reported them to the tenth of a billion rubles—an innovation—but only of technical interest. These ruble values merely confirm the official percentage increases already announced by the Soviets. These same percentage increases (based on the gross concept) are then used in direct comparison with US industrial output increase (based on value-added) for the period 1953-63 giving the erroneous impression that industry increased 75 percent while US industry increased only 23 percent. A true comparison would set Soviet growth at about 50 percent. Moreover, lumping the last five years together lets the earlier years of higher growth offset the slow-down in the past two or three, which was, after all, one of the main points of the Congressional report.

10. Individual commodities featured in the Starovsky article also represent his bias. Nowhere in the list of industrial commodities does one find any consumer goods—except for woollen goods—the production of which in the US has been somewhat supplanted by synthetics. The increases in heavy industrial production—while impressive—speak of the single-minded concentration of the economy at the expense of the consumer and agriculture while the slower US growth should rather be viewed as that of a more mature economy where large increases in such basic raw materials as steel and cement are less essential to overall economic growth as they once were. Likewise Starovsky's pride in the Soviet Union outproducing the US in iron ore ignores the fact that the US imports much of this commodity; in coal, that the US has long ago shifted its power base to other materials; in tractors, that US agriculture is already nearly productive in terms of present food requirements, is not expanding its capital rapidly; in cement, that the US output is of much higher quality than that of the Soviet Union and, in any case, fully meets present construction requirements.

11. Finally, Mr. Starovsky points to the alleged overfulfillment of the industrial segment of the Seven Year Plan (1958-65) thus far by a sum of 37 billion rubles. To put this claim in proper perspective one has only to recall that the economy is now undergoing a nearly traumatic readjustment directed by a regime in Moscow clearly dissatisfied with the kinds of goods which are

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being produced by an industry "overfulfilling" the plan. As Khrushchev has explicitly indicated, simple overfulfillment of goods ill-asserted and shoddy does not mean economic progress. Moreover, Mr. Starovsky neglects to say that the overfulfillments have been chiefly in heavy industry, while light industry (for the consumer) has lagged behind the plan.

12. Mr. Starovsky's penchant for dwelling on the industrial component of the Soviet economy corresponds to the approach taken by other Soviet critics of recent US publicity on Soviet economic problems. (see annex C for further information). This is understandable, for the chief culprit in the Soviet equation of economic growth is agriculture. The very poor agricultural performance in 1963 would undoubtedly be reflected in both the Soviet national income index and the "gross social product" index but no details are given. For agriculture it is as if 1943 did not exist.

13. The US-USSR agricultural comparisons represent almost a classical example of "how to lie with statistics." Mr. Starovsky chose to compare with years 1948-52 (during which Soviet agriculture was still suffering from Stalin's neglect and mismanagement and had barely managed to regain the level of output achieved in pre-revolutionary times) with 1958-62 (which lumps together the best year in Russian agricultural history--1958--with the subsequent years of no further progress). The meat comparison--showing USSR production to have been 49 percent of US--is invalid in that the Soviet production figure includes much that is considered inedible and is not included in the US. ~~Butter production figures do not allow for the Soviet butter subsidy. The fact that the USSR outproduces the US in butter is explained by the greater margarine consumption in the US; a greater sugar production reflects the fact that the US is a sugar importer.~~

14. In the field of labor statistics Mr. Starovsky again used a classical ruse. He attempted to refute the US statement that the rate of employment increase has slackened in the last two years by quoting data on the increase in employment related to the total able-bodied

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population for the years 1958 to 1963. In fact, both Starovsky and the US analysis is based on the same data, but Starovsky lumps together a period of time during which the growth rate (1958-60) tends to offset a slower rate in later years (1961-63).

18. Finally, Mr. Starovsky got into the very slippery field of comparative military expenditures with the claim that the US spends 15 percent of its national income on defense while the Soviet Union only spends 8. International comparisons in this field are extremely complex but it is generally accepted that the USSR spends somewhat more than indicated by Starovsky and the US expenditures are somewhat less, both countries spending about the same share of GNP. It is these large Soviet expenditures and the claims they represent on the quality materials and skilled manpower to which most Western analysts ascribe the slowdown in Soviet economic growth in the past few years.

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